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DIRECTORATE OF INTELLIGENCE

9 September 1985

INDIA AND GATT

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Summary

Indian opposition to a new round of trade talks under the General Agreement on Tariffs and Trade (GATT) negotiations hinges upon New Delhi's belief that it has little to gain, and that the inclusion of services in the next round provides extra leverage to developed countries to extract trade concessions from developing countries. The Indians might be induced to reevaluate their opposition to a new round if they can gain concessions on trade and development assistance or be convinced that their exports of goods and services would be enhanced, or at least not hurt by adjustments in import quotas and preferences. Since India is almost alone in its objection to a new GATT round, continued pressure by Washington and other major capitals may also help convince New Delhi to alter its current obstructionist position. Even India's major ally in GATT, Brazil, seems to be modifying its earlier opposition to including services in a new trade round.

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This memorandum was prepared by [redacted] the Office of Near Eastern and South Asian Analysis. Comments and queries are welcome and may be addressed to the Chief, South Asia Division, NESA, [redacted]. Information as of 9 September 1985 was used in the preparation of this report. [redacted]

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Prime Minister Gandhi's plans to stimulate economic growth are likely to be increasingly constrained by impending balance-of-payment problems caused by higher petroleum imports, a rising debt service, and military payments to the USSR. By FY 1989/90 the World Bank projects a \$4.6 billion current account deficit for India, nearly a 70 percent increase over FY 1984/85.

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To cope with these expected payments problems, New Delhi hopes to increase exports. The World Bank estimates that India will have to expand the value of exports at a rate of nearly 11 percent per year to maintain the desired 5 percent annual pace of economic growth and avoid serious foreign payments problems. New Delhi is looking primarily to textiles (both cloth and garments), agricultural products, and manufactured goods such as automobile components and metal fabrications, to lead export growth.

Indians also expect services--including labor remittances, computer software, tourism, and consultancies on Indian industrial and hotel projects abroad--to make a major contribution to easing its foreign payments problems. In FY 1983/84, receipts from private transfers (mostly workers' remittances) and other services equalled about 60 percent of merchandise export earnings.

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Will India Participate?

Prime Minister Gandhi's recent attacks on protectionism and tariff barriers in developed countries suggests that New Delhi could be enticed to join new GATT negotiations. This probably can only be accomplished, however, if India can be persuaded that its export potential in goods and services would be significantly enhanced through participation.

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Tariffs: Participation would allow India to seek most favored nation (MFN) tariff concessions on manufactured goods. It would also enable New Delhi to work against tariff escalation and for cuts on those exports most likely to exceed volume limits of industrial country preference schedules.

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Textiles: Because India's overall competitive position in textiles is weak, it fears that increased trade liberalization would erode its share of international markets. If the Multifiber Arrangement (MFA) is discussed in a new GATT round, India might be persuaded to participate to ward off a phase-out or a substantial revision of textile quotas.

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Agriculture: India would probably benefit from more liberalized world agricultural trade, especially if export subsidies in developed countries are reduced. If New Delhi joins in negotiations, it will probably lobby for special consideration for LDC farm export subsidies--India will need supports to promote its wheat exports.

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Services: India's potential for software exports and joint-venture industrial projects would probably be enhanced by liberalized services trade. Indian fears that its banking and insurance industries will be swamped by more open trade are exaggerated, in our view, because India's market is not that attractive to Western and US firms. Moreover, Indian domestic service industries are not in danger since New Delhi may refuse to sign any sector-specific agreements which they believe will harm them.

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Conclusion

The Indians will have to balance their fear of losses in their competitive position if they participate in the next GATT round against the likelihood that obstruction could cost political and economic benefits. They probably realize that if they did not agree to participate:

- Washington would find it difficult to view India's trade problems sympathetically;
- The US would be less forthcoming in response to Indian pleas for increased concessional funding in multilateral development institutions;
- The US might be even less willing to consider a more liberal position on textile category definitions under the US-India bilateral textile agreement.

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